



**Assessment of Health Coverage  
Industry Trends and CareFirst's  
Strategic Response  
Appendix**

November 16, 2001

## **Health Plans Being Squeezed**

**Health Plans Expand & Access Equity**

**National Trends Playing Out in Mid-Atlantic Region**

**CareFirst Must Gain Substantial Scale & Access Capital**

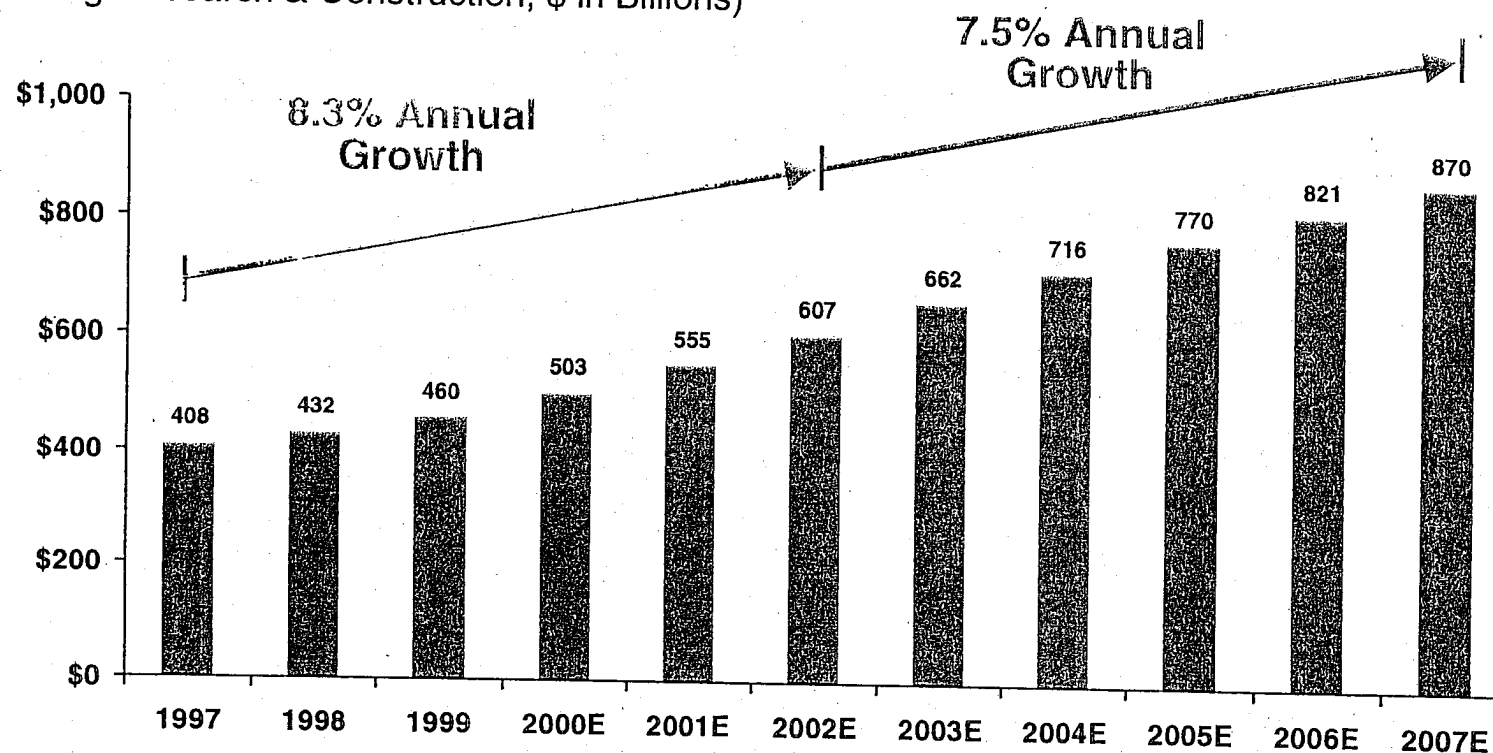
**Timing Appears Favorable for CareFirst to Act**

**CareFirst's Constituents Likely to Benefit**

**According to government estimates, from 1997 through forecasts for 2002, private healthcare costs have increased nationally an average rate of 8.3%, and will continue to increase.**

## Private Healthcare Expenditures

(Excluding Research & Construction, \$ in Billions)



Source: Centers for Medicare & Medicaid Services (formerly Health Care Financing Administration), *National Health Expenditure Projections, 1998-2010*, March 2001

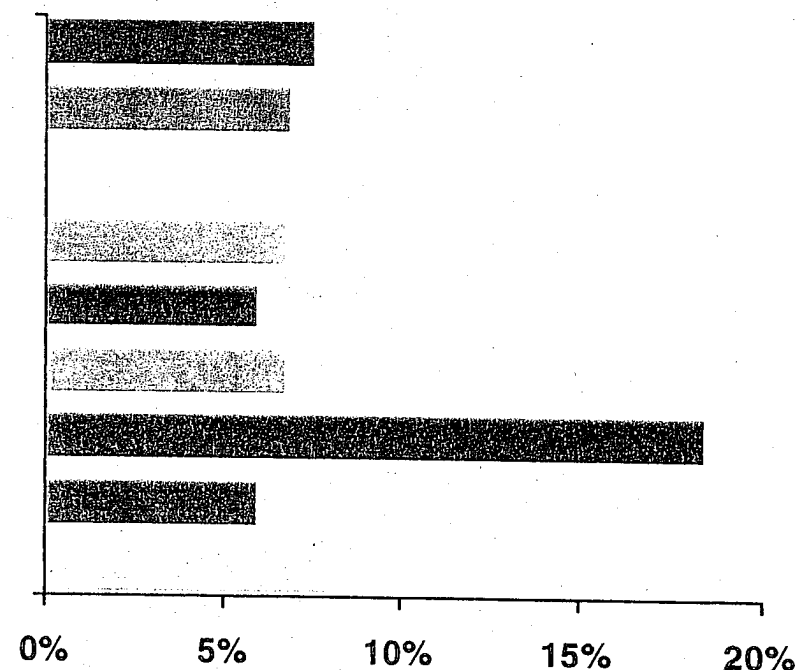
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**Most components of private healthcare expenditures have increased, with prescription drugs leading the way.**

## 2002E Private Healthcare Expenditures (\$ in Billions)

Hospital Care	\$ 189.5
Physician and Clinical Services	189.6
Other Professional Services	24.6
Dental Services	34.6
Other Personal Healthcare	4.8
Nursing Home and Home Health	26.6
Prescription Drugs	70.7
Other Medical Products	4.0
Government Admin	62.5
<b>Total</b>	<b>\$ 607.1</b>

## 5-Year CAGR (1997 – 2002E)



Source: Centers for Medicare & Medicaid Services (formerly Health Care Financing Administration), *National Health Expenditure Projections, 1998-2010*, March 2001

**Although prescription drugs experienced the highest 5-year expenditure growth, hospital inpatient and outpatient spend accounted for 43% of the overall increase in 2000.**

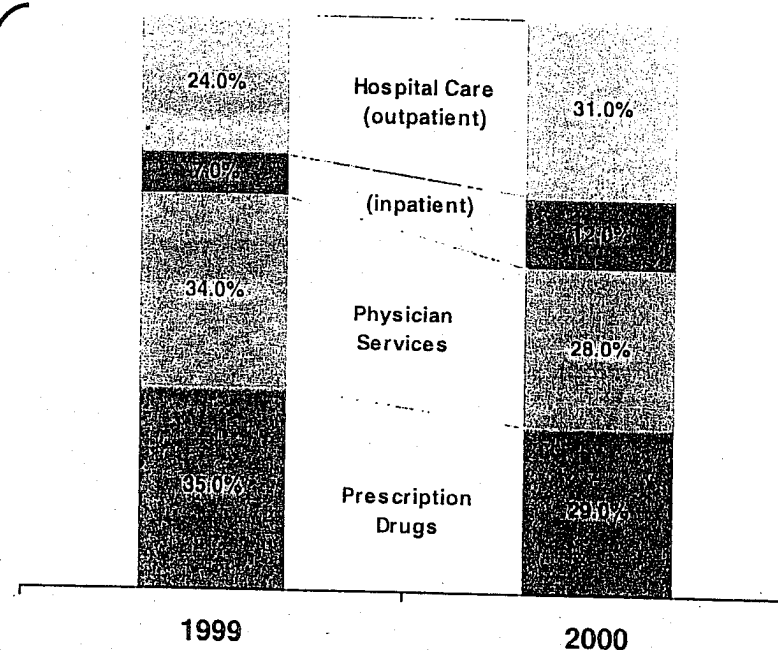
### Private Healthcare Spending Increase\*

(Annual Change per Capita, 1994-2000)

Year	Hospital Inpatient	Hospital Outpatient	Physician	Prescrip. Drug	All Services
1994	-2.0%	8.7%	1.7%	5.2%	2.1%
1995	-3.5%	7.9%	1.9%	10.6%	2.2%
1996	-4.4%	7.7%	1.6%	11.0%	2.0%
1997	-5.3%	9.5%	3.4%	11.5%	3.3%
1998	-0.6%	7.9%	4.8%	14.1%	5.3%
1999	1.6%	8.9%	5.7%	18.4%	7.1%
2000	2.8%	11.2%	4.8%	14.5%	7.2%

### Sources of Cost Increase

(Contribution to 7.2%, 1999 - 2000)



\*Data Bulletin is based on data from Milliman USA Health Cost Index (\$0 deductible), which is designed to reflect claims increases faced by private insurers

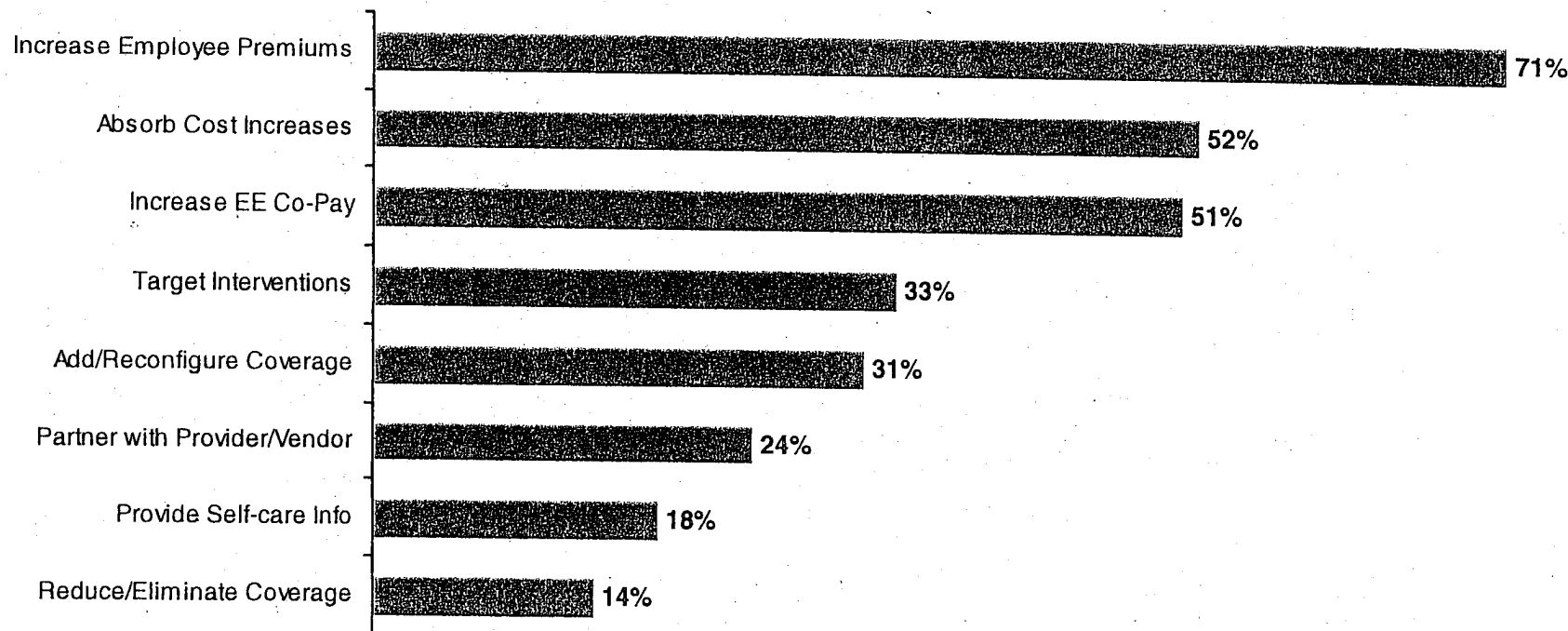
Source: Center for Studying Health System Change (HSC), *Tracking Health Care Costs – Hospital Care Key Cost Driver in 2000*, September 2001

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**The dramatic rise in health care costs has forced companies to cut back on the medical benefits they offer and shift more of the payment burden to employees.**

## Employers' Response to Rising Costs\*

(% of Respondents)



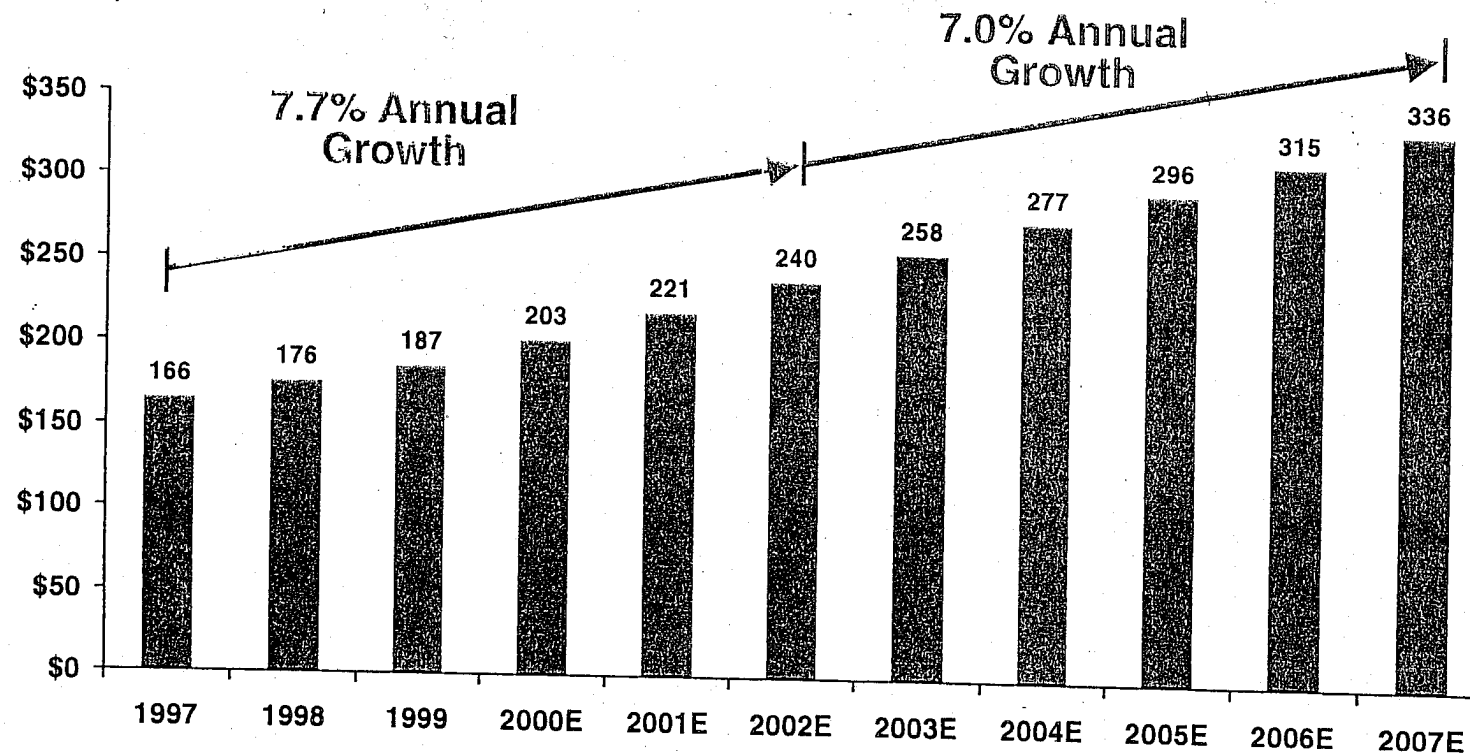
\*Survey of 360 employers who represent 4.7 million full-time employees, operating across a wide range of industries and geographic regions.

Source: Watson Wyatt Worldwide, Washington Business Group on Health and the Healthcare Financial Management Association, *Changing Role of Health Care Benefits – Sixth Annual Survey Report on Purchasing Value in Health Care*, 2001

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**As employers have shifted some of the cost burden, consumers' out of pocket expenditures have increased.**

## Consumers' Out of Pocket Healthcare Expenditures (\$ in Billions)

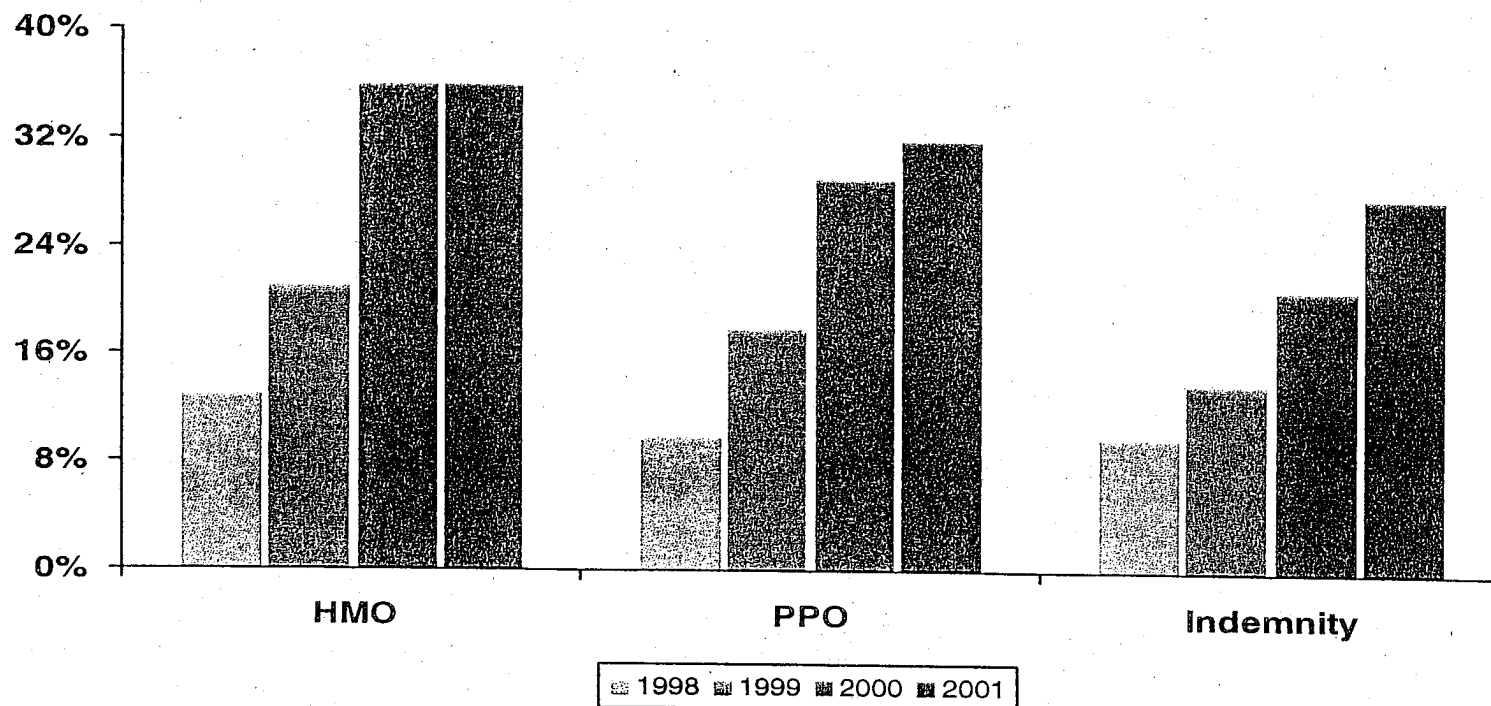


Source: Centers for Medicare & Medicaid Services (formerly Health Care Financing Administration), *National Health Expenditure Projections, 1998-2010*, March 2001

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**Changes in drug co-pays and deductibles continue to increase and are occurring across all product types.**

## % of Employers Reporting Changes in Drug Co-Pays and Deductibles



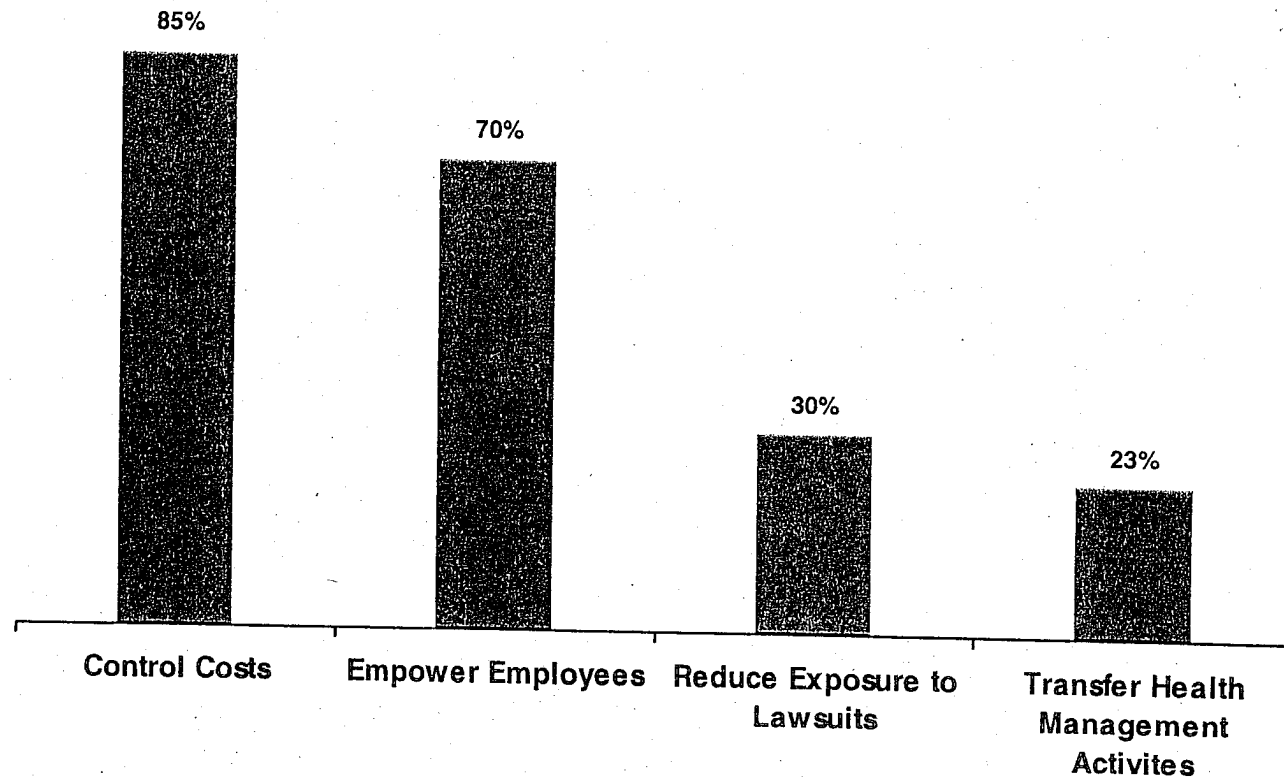
"...we expect medical costs will continue accelerating in 2002, and a slowing economy could limit the rate increases employers will absorb. Benefit buydowns and higher out-of-pocket costs for consumers will surely follow."

Source: Credit Suisse First Boston, *Benefit Manager Survey*, January 30, 2001



**One of the reasons employers are interested in defined contribution products is to control costs.**

## **Top Reasons Employers are Considering a Defined Contribution Approach** (% of Respondents)



Source: Hewitt Associates, *Healthcare Expectations: Future Strategy and Direction*, November 2000

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**Both for-profits and non-profits are exiting the Medicare risk program as costs increase without corresponding increases in Federal funding.**

## Health Plans Exiting Medicare Risk (Effective January 2001\*)

Health Plan (Parent)	Affected Enrollees
Aetna U.S. Healthcare	284,876
CIGNA HealthCare	97,009
Humana	66,176
United Healthcare	53,164
Prudential	52,087
Free State Health Plan	31,355
HMO of Northeastern PA, Inc.	30,723
Anthem Health Plans	25,961
Penn State Geisinger Health Plan	16,648
PacifiCare	16,188
Fifty-five other for-profit and non-profit Plans	267,323
<b>Total Pullouts</b>	<b>925,322</b>

\*Medicare + Choice plans were required to submit service area changes that would impact their CY2001 offerings by July 3, 2000

Source: Centers for Medicare & Medicaid Services (formerly Health Care Financing Administration), Medicare + Choice Nonrenewals, July 2000